

## CONSOLIDATED INCOME STATEMENT

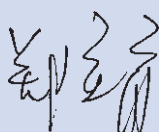
Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
REVENUE	5	<b>2,671,798</b>	1,561,093
Cost of sales		<b>(2,229,736)</b>	(1,159,259)
Gross profit		<b>442,062</b>	401,834
Other income and gains	5	<b>45,801</b>	21,542
Selling and distribution costs		<b>(23,667)</b>	(21,191)
Administrative expenses		<b>(191,815)</b>	(121,574)
Other expenses		<b>(3,362)</b>	(5,287)
Finance costs	6	<b>(59,932)</b>	(12,557)
PROFIT BEFORE TAX	7	<b>209,087</b>	262,767
Tax	10	<b>(16,992)</b>	(21,394)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11	<b>192,095</b>	241,373
DIVIDEND	12	–	–
EARNINGS PER SHARE	13		
– Basic (HK cents)		<b>24.6</b>	32.6
– Diluted (HK cents)		<b>24.6</b>	N/A

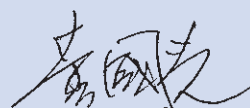
# CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	<b>1,159,704</b>	855,706
Lease premium for land	15	<b>15,956</b>	12,690
Deferred tax assets	16	<b>3,913</b>	2,092
Prepayments for acquisition of investments		<b>33,462</b>	–
Prepayments for acquisition of property, plant and equipment		–	40,249
<b>Total non-current assets</b>		<b>1,213,035</b>	910,737
<b>CURRENT ASSETS</b>			
Inventories	18	<b>764,963</b>	415,515
Trade receivables	19	<b>797,530</b>	747,564
Factored trade receivables	19	<b>502,067</b>	–
Prepayments, deposits and other receivables	20	<b>65,313</b>	66,063
Derivative financial instruments	25	<b>3,565</b>	4,107
Pledged bank balances and time deposits	21	<b>30,993</b>	49,981
Cash and cash equivalents	21	<b>226,699</b>	145,322
<b>Total current assets</b>		<b>2,391,130</b>	1,428,552
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	22	<b>629,985</b>	433,554
Other payables and accruals	23	<b>289,137</b>	209,129
Tax payable		<b>63,730</b>	48,068
Bank advances on factored trade receivables	19	<b>512,477</b>	–
Interest-bearing bank borrowings	24	<b>343,102</b>	770,390
<b>Total current liabilities</b>		<b>1,838,431</b>	1,461,141
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>552,699</b>	(32,589)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,765,734</b>	878,148
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	24	<b>526,260</b>	175,517
<b>Net assets</b>		<b>1,239,474</b>	702,631
<b>EQUITY</b>			
Issued capital	26	<b>100,000</b>	410,280
Reserves	28(a)	<b>1,139,474</b>	292,351
<b>Total equity</b>		<b>1,239,474</b>	702,631



**Cheng Li-Yu**  
Director



**Huang Kuo-Kuang**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

Notes	Issued share capital HK\$'000 (Note(a))	Share premium account HK\$'000 (Note(c))	Contributed surplus HK\$'000 (Note(c))	Employee share-based compensation reserve HK\$'000 (Note(c))	Statutory reserve fund HK\$'000 (Notes(b),(c))	Exchange fluctuation reserve HK\$'000 (Note(c))	Retained profits HK\$'000 (Note(c))	Total equity HK\$'000
At 1 January 2004	93,378	27,349	–	–	14,012	(4,205)	178,423	308,957
Exchange realignment and net loss recognised directly in equity	–	–	–	–	–	(3,086)	–	(3,086)
Profit for the year	–	–	–	–	–	–	241,373	241,373
Total income and expense for the year	–	–	–	–	–	(3,086)	241,373	238,287
Issue of share capital	43,635	111,752	–	–	–	–	–	155,387
Capitalisation issue of shares	273,267	(123,855)	–	–	–	(7,243)	(142,169)	–
Transfer from retained profits	–	–	–	–	9,782	–	(9,782)	–
At 31 December 2004 and 1 January 2005	410,280	15,246	–	–	23,794	(14,534)	267,845	702,631
Exchange realignment and net gain recognised directly in equity	–	–	–	–	–	19,025	–	19,025
Profit for the year	–	–	–	–	–	–	192,095	192,095
Total income and expense for the year	–	–	–	–	–	19,025	192,095	211,120
Reorganisation adjustment	(405,020)	(15,246)	420,266	–	–	–	–	–
New issue of shares	26	26,000	338,000	–	–	–	–	364,000
Capitalisation issue of shares	26	68,740	(68,740)	–	–	–	–	–
Share issue expenses	26	–	(42,133)	–	–	–	–	(42,133)
Share-based compensation arrangements	27	–	–	3,856	–	–	–	3,856
<b>At 31 December 2005</b>	<b>100,000</b>	<b>227,127</b>	<b>420,266</b>	<b>3,856</b>	<b>23,794</b>	<b>4,491</b>	<b>459,940</b>	<b>1,239,474</b>

Notes:

- The balance of the issued share capital as at 1 January 2004 represents the issued share capital of Giant Glory International Limited, the then holding company of the companies comprising the Group. The balance of the issued share capital as at 31 December 2004 represents the issued share capital of Best Alliance Holding Inc., the then holding company of the companies comprising the Group.
- In accordance with the relevant regulations in the People's Republic of China ("PRC"), the Company's subsidiaries established in the PRC are required to transfer a certain percentage of their profits after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital.
- These reserve accounts comprise the consolidated reserves of HK\$1,139,474,000 (2004: HK\$292,351,000) in the consolidated balance sheet.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>209,087</b>	262,767
Adjustments for:			
Finance costs	6	<b>59,932</b>	12,557
Interest income	5	<b>(2,245)</b>	(977)
Depreciation	7	<b>91,634</b>	48,326
Amortisation of lease premium for land	7	<b>357</b>	397
Loss on disposal of items of property, plant and equipment, net	7	<b>813</b>	–
Provision for slow-moving and obsolete inventories	7	<b>23,136</b>	17,674
Employee share-based compensation expenses		<b>3,856</b>	–
Operating profit before working capital changes		<b>386,570</b>	340,744
Increase in inventories		<b>(372,584)</b>	(269,591)
Increase in trade receivables		<b>(49,966)</b>	(388,548)
Increase in factored trade receivables		<b>(502,067)</b>	–
Increase in prepayments, deposits and other receivables		<b>(10,482)</b>	(67,224)
Decrease/(increase) in derivative financial instruments		<b>542</b>	(4,107)
Increase in lease premium for land		<b>(3,623)</b>	(1,192)
Increase in trade and bills payables		<b>196,431</b>	126,115
Increase/(decrease) in other payables and accruals		<b>75,871</b>	(15,992)
Increase in bank advances on factored trade receivables		<b>512,477</b>	–
Cash generated from/(used in) operations		<b>233,169</b>	(279,795)
Mainland China income tax paid		<b>(7,789)</b>	(10,685)
Overseas income tax paid		–	(774)
Mainland China income tax refund		<b>4,719</b>	–
Interest received		<b>2,245</b>	977
Interest paid		<b>(55,795)</b>	(16,073)
Net cash inflow/(outflow) from operating activities		<b>176,549</b>	(306,350)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(346,627)</b>	(409,133)
Proceeds from disposal of items of property, plant and equipment		<b>5,786</b>	9
Decrease/(increase) in pledged bank balances and time deposits		<b>18,988</b>	(19,818)
Increase in prepayments for acquisition of investments		<b>(22,230)</b>	–
Acquisition of subsidiaries	29	–	4,297
Net cash outflow from investing activities		<b>(344,083)</b>	(424,645)

## CONSOLIDATED CASH FLOW STATEMENT (continued)

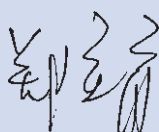
Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		<b>2,043,888</b>	1,543,609
Repayment of bank loans		<b>(2,120,433)</b>	(872,108)
Proceeds from issue of shares	26	<b>364,000</b>	90,120
Share issue expenses	26	<b>(42,133)</b>	—
Net cash inflow from financing activities		<b>245,322</b>	761,621
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>77,788</b>	30,626
Cash and cash equivalents at beginning of year		<b>145,322</b>	116,077
Effect of foreign exchange rate changes, net		<b>3,589</b>	(1,381)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>226,699</b>	145,322
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	<b>226,699</b>	145,322

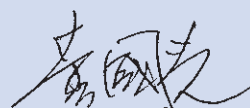
## BALANCE SHEET

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	969,701	—
Total non-current assets		969,701	—
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	20	279	—
Cash and cash equivalents	21	129,339	—
Total current assets		129,618	—
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	23	2,053	—
<b>NET CURRENT ASSETS</b>		<b>127,565</b>	<b>—</b>
<b>Net assets</b>		<b>1,097,266</b>	<b>—</b>
<b>EQUITY</b>			
Issued capital	26	100,000	—
Reserves	28(b)	997,266	—
<b>Total equity</b>		<b>1,097,266</b>	<b>—</b>



**Cheng Li-Yu**  
Director



**Huang Kuo-Kuang**  
Director

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 1. CORPORATE INFORMATION

Ju Teng International Holdings Limited is a limited liability company incorporated in the Cayman Islands. During the year, the Group was principally engaged in the manufacture and sale of notebook computer casings.

## 2. GROUP REORGANISATION AND BASIS OF PRESENTATION

### Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 17 June 2005 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Best Alliance Holding Inc, which was the intermediate holding company of the subsidiaries set out in note 17 to the financial statements, in consideration of and in exchange for the allotment and issue of 52,599,999 shares of HK\$0.1 each in the share capital of the Company, credited as fully paid, to the former shareholders of Best Alliance Holding Inc.

Further details of the Group Reorganisation are set out in the Company's prospectus dated 25 October 2005.

The shares of the Company were listed on the Main Board of the Stock Exchange on 3 November 2005.

### Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2005 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation/registration, where this is a shorter period, except for Hempton International Limited ("Hempton") and Ju Teng Electronics (Shanghai) Co., Ltd. ("Ju Teng Electronics") which are consolidated from the date of acquisition as further explained below. The comparative combined balance sheet as at 31 December 2004 has been prepared on the basis that the existing Group had been in place at that date.

The acquisition of Hempton and Ju Teng Electronics during the prior year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The results of Hempton and Ju Teng Electronics are consolidated from the date of acquisition.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

The Group has adopted all applicable new and revised HKFRSs, which are effective for accounting periods beginning on 1 January 2005, since 1 January 2004.

## 3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) -Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC) -Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) -Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK (IFRIC) -Int 7	Applying the Restatement Approach under HKAS 29 - Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.



# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, (other than inventories, deferred tax assets and financial assets) the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset or as a replacement.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Property, plant and equipment and depreciation *(continued)***

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of the items of property, plant and equipment are as follows:

Freehold land	Not depreciated
Buildings	20 years
Leasehold improvements	Over the lease terms or 5 to 10 years
Machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other items of property, plant and equipment under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction, installation and testing and capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Income tax *(continued)***

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Employee benefits**

##### *Pension schemes*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the relevant government authorities. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees employed by the Group's subsidiary in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Employee benefits *(continued)***

#### *Share-based payment transactions*

The Company operates a Pre-IPO share option scheme, a share option scheme and a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer, further details of which are given in note 27. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the combined income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries:
  - (i) controls, is controlled by, or is under common control with, the Group;
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d) ;
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) ; or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.



# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### **Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets, after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates with the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

### **Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.



# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of financial assets *(continued)***

#### *Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services have been rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### Derivative financial instruments

The Group uses forward currency contracts to reduce its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

The Group's forward currency contracts do not qualify for hedge accounting and accordingly gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

### (a) Business segments

The Group was principally engaged in the manufacture and sale of notebook computer casings. Therefore, no further business segment analysis is presented.

### (b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The following tables present revenue, certain assets and capital expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

*Segment revenue from external customers:*

	2005 HK\$'000	2004 HK\$'000
Mainland China	2,415,718	1,371,569
The Republic of China ("ROC")	244,315	187,721
Others	11,765	1,803
	2,671,798	1,561,093

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 4. SEGMENT INFORMATION *(continued)*

#### (b) Geographical segments *(continued)*

*Segment assets:*

	2005 HK\$'000	2004 HK\$'000
Mainland China	3,180,921	2,012,579
The ROC	290,873	313,533
Others	132,371	13,177
	<b>3,604,165</b>	2,339,289

*Segment capital expenditure:*

	2005 HK\$'000	2004 HK\$'000
Mainland China	385,942	408,749
The ROC	909	3,217
Others	25	785
	<b>386,876</b>	412,751

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax, business tax and government surcharges, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions.

An analysis of revenue, other income and gains, is as follows:

	2005 HK\$'000	2004 HK\$'000
<b>Revenue</b>		
Sale of goods	2,671,798	1,561,093

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

	2005 HK\$'000	2004 HK\$'000
<b>Other income</b>		
Interest income	2,245	977
Subcontracting fee income	2,490	3,577
Sale of scrap materials	10,916	7,454
Sale of used moulds	1,645	3,162
Subsidy income	1,671	5,565
Others	1,655	807
	20,622	21,542
<b>Gains</b>		
Exchange gains, net	25,179	–
	45,801	21,542

### 6. FINANCE COSTS

	2005 HK\$'000	Group 2004 HK\$'000
Interest on bank loans and other loans wholly repayable:		
Within five years	59,896	16,001
Over five years	36	72
Total interest	59,932	16,073
Less: Interest capitalised	–	(3,516)
	59,932	12,557

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold	<b>2,176,868</b>	1,122,476
Auditors' remuneration	<b>1,800</b>	180
Depreciation	<b>91,634</b>	48,326
Amortisation of lease premium for land	<b>357</b>	397
Minimum lease payments under operating leases:		
Land and buildings	<b>3,763</b>	1,116
Motor vehicles	<b>2,113</b>	1,391
Provision for slow-moving and obsolete inventories*	<b>23,136</b>	17,674
Employee benefits expense (excluding directors' remuneration – note 8):		
Wages and salaries, bonuses, allowances and welfare	<b>383,167</b>	240,055
Employee share-based compensation expenses	<b>2,850</b>	–
Pension scheme contributions	<b>11,149</b>	7,638
	<b>397,166</b>	247,693
Government subsidy	<b>(1,671)</b>	–
Loss on disposal of items of property, plant and equipment, net	<b>813</b>	–
Exchange losses, net	<b>–</b>	5,283

\* The provision for slow-moving and obsolete inventories is included in "Cost of sales" on the face of the consolidated income statement.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees	210	—
Other emoluments:		
Salaries, allowances and benefits in kind	2,783	2,100
Employee share-based compensation expenses	1,006	—
Pension scheme contributions	12	5
	4,011	2,105

During the year, certain directors were granted options under the Pre-IPO share option scheme and shares under the share award plan in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. The fair value of such options and shares which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

The remuneration of each of the directors for the year ended 31 December 2005 is set out below:

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employee share-based compensation expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Mr. Cheng Li-Yu	—	662	—	—	662
Mr. Cheng Li-Yen	—	597	—	—	597
Mr. Huang Kuo-Kuang	—	601	446	—	1,047
Mr. Tsui Yung Kwok	—	923	560	12	1,495
Mr. Horng Tsai-Chin	—	—	—	—	—
Mr. Yu Chwo-Ming	70	—	—	—	70
Mr. Tsai Wen-Yu	70	—	—	—	70
Mr. Lo Ching Pong	70	—	—	—	70
	210	2,783	1,006	12	4,011

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 8. DIRECTORS' REMUNERATION (continued)

The remuneration of each of the directors for the year ended 31 December 2004 is set out below:

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employee share-based compensation expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Mr. Cheng Li-Yu	—	542	—	—	542
Mr. Cheng Li-Yen	—	523	—	—	523
Mr. Huang Kuo-Kuang	—	621	—	—	621
Mr. Tsui Yung Kwok	—	414	—	5	419
Mr. Horng Tsai-Chin	—	—	—	—	—
Mr. Yu Chwo-Ming	—	—	—	—	—
Mr. Tsai Wen-Yu	—	—	—	—	—
Mr. Lo Ching Pong	—	—	—	—	—
	—	2,100	—	5	2,105

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2004: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: one), non-director, highest paid employees for the year are as follows:

	Group 2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	1,619	603
Bonuses	134	—
Employee share-based compensation expenses	713	—
	2,466	603

The remuneration of the three non-director, highest paid employees for the year fell within the Nil to HK\$1,000,000 band.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 10. TAX

Hong Kong profits tax has not been provided, as the Group did not have any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	2005 HK\$'000	2004 HK\$'000
Provision for the year:		
Mainland China	11,770	13,113
Overseas	11,681	10,733
Overprovision in prior years – overseas	–	(360)
Tax refund	(4,719)	–
Deferred tax – Note 16	(1,740)	(2,092)
Total tax charge for the year	16,992	21,394

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are principally domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

#### Group – 2005

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(8,098)		167,786		49,399		209,087	
Tax at the statutory tax rate	(1,417)	17.5	55,369	33.0	12,350	25.0	66,302	31.7
Preferential tax rates	–	–	(45,955)	(27.4)	–	–	(45,955)	(22.0)
Income not subject to tax	–	–	–	–	(418)	(0.8)	(418)	(0.2)
Expenses not deductible for tax	1,417	(17.5)	146	0.1	219	0.4	1,782	0.9
Tax refund	–	–	(4,719)	(2.8)	–	–	(4,719)	(2.3)
Tax charge at the Group's effective rate	–	–	4,841	2.9	12,151	24.6	16,992	8.1



## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 10. TAX (continued)

#### Group - 2004

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(367)		214,589		48,545		262,767	
Tax at the statutory tax rate	(64)	17.5	70,814	33.0	12,136	25.0	82,886	31.5
Preferential tax rates	–	–	(58,157)	(27.1)	–	–	(58,157)	(22.1)
Income not subject to tax	–	–	(68)	–	(4,769)	(9.8)	(4,837)	(1.8)
Expenses not deductible for tax	64	(17.5)	524	0.2	914	1.9	1,502	0.5
Tax charge at the Group's effective rate	–	–	13,113	6.1	8,281	17.1	21,394	8.1

Pursuant to an approval document dated 28 December 2001 issued by the Tax Bureau of Wujiang City, the PRC (the "Tax Bureau"), Everyday Computer Components (Suzhou) Co., Ltd. ("Everyday Computer"), a subsidiary of the Company, is subject to a preferential tax rate of 24% as Everyday Computer is recognised as a foreign investment manufacturing enterprise. In addition, Everyday Computer is a foreign investment enterprise and is entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2002 and a 50% relief for the three years thereafter.

Pursuant to an approval document dated 13 April 2004 issued by the Tax Bureau, Suzhou Dazhi Communication Accessory Co., Ltd. ("Suzhou Dazhi"), a subsidiary of the Company, is subject to a preferential tax rate of 24% as Suzhou Dazhi is also recognised as a foreign investment manufacturing enterprise. In addition, Suzhou Dazhi, also a foreign investment enterprise, is entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2003 and a 50% relief for the three years thereafter. However, pursuant to the relevant income tax laws and regulations in the PRC, Suzhou Dazhi elected to defer its entitlement of the tax exemption to the year commencing 1 January 2004 as Suzhou Dazhi had commenced its operations for less than six months in its first year of entitlement.

Ju Teng Electronics, which is located and operates in Shanghai Songjiang Export Processing Zone, is subject to a preferential tax rate of 15%. Ju Teng Electronics is also a foreign investment enterprise and is therefore entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2003 and a 50% relief for the three years thereafter.

### 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK\$5,815,000 (2004: Nil) (note 28 (b)).

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 12. DIVIDEND

No dividend has been paid or declared by the Company during the year. The dividend distributed by the companies now comprising the Group during the prior year is as follows:

	2004 HK\$'000
Everyday Computer	85,800
Less: Intra-group dividend	(85,800)
	—

The dividend rates and the number of shares ranking for dividend, are not presented as, in the opinion of the directors, such information is not considered meaningful.

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK\$192,095,000 (2004: HK\$241,373,000) and the weighted average number of 782,027,397 (2004: 740,000,000) shares in issue during the year, on the assumption that the Group Reorganisation and the capitalisation issue of shares as further detailed in note 26 had been completed on 1 January 2004.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK\$192,095,000 (2004: HK\$241,373,000). The weighted average number of shares used in the calculation is the 782,027,397 (2004: 740,000,000) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of 66,953 shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential shares into shares.

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed as no diluting events existed during that year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery HK\$'000	Furniture, Fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At 1 January 2004	106,947	974	265,144	10,294	3,250	72,970	459,579
Additions	13,695	1,696	241,839	19,745	4,002	131,774	412,751
Acquisition of subsidiaries (note 29)	–	4,759	31,266	843	1,073	25,402	63,343
Transfers	175,955	–	5,786	4,105	–	(185,846)	–
Disposals	–	–	(9)	–	–	–	(9)
Exchange realignment	39	16	–	63	3	–	121
At 31 December 2004 and 1 January 2005	296,636	7,445	544,026	35,050	8,328	44,300	935,785
Additions	26,897	2,250	221,884	26,007	2,611	107,227	386,876
Transfers	137,987	–	5,009	5,047	559	(148,602)	–
Disposals	–	(5,673)	(3,636)	(722)	(374)	(2,534)	(12,939)
Exchange realignment	5,592	135	10,052	669	160	620	17,228
<b>At 31 December 2005</b>	<b>467,112</b>	<b>4,157</b>	<b>777,335</b>	<b>66,051</b>	<b>11,284</b>	<b>1,011</b>	<b>1,326,950</b>
Accumulated depreciation:							
At 1 January 2004	5,113	130	18,385	1,954	667	–	26,249
Provided during the year	8,199	2,487	33,051	3,492	1,097	–	48,326
Acquisition of subsidiaries (note 29)	–	2,683	2,495	194	116	–	5,488
Exchange realignment	1	1	–	12	2	–	16
At 31 December 2004 and 1 January 2005	13,313	5,301	53,931	5,652	1,882	–	80,079
Provided during the year	16,381	1,111	63,530	8,628	1,984	–	91,634
Disposals	–	(5,315)	(569)	(204)	(252)	–	(6,340)
Exchange realignment	256	74	1,402	106	35	–	1,873
<b>At 31 December 2005</b>	<b>29,950</b>	<b>1,171</b>	<b>118,294</b>	<b>14,182</b>	<b>3,649</b>	<b>–</b>	<b>167,246</b>
Net book value:							
<b>At 31 December 2005</b>	<b>437,162</b>	<b>2,986</b>	<b>659,041</b>	<b>51,869</b>	<b>7,635</b>	<b>1,011</b>	<b>1,159,704</b>
At 31 December 2004	283,323	2,144	490,095	29,398	6,446	44,300	855,706

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's land and buildings were held under the following lease terms:

	2005 HK\$'000	2004 HK\$'000
Freehold outside Hong Kong	3,914	3,996
Medium term leases outside Hong Kong	433,248	279,327
	<b>437,162</b>	283,323

At 31 December 2005, certain of the Group's land and buildings and machinery with an aggregate net book value of approximately HK\$740,177,000 (2004: HK\$391,107,000) were pledged to secure certain banking facilities granted to the Group (note 24).

### 15. LEASE PREMIUM FOR LAND

	2005 HK\$'000	Group 2004 HK\$'000
Carrying amount at 1 January	12,690	9,687
Addition during the year	3,623	1,192
Acquisition of subsidiaries (note 29)	–	2,208
Recognised during the year	(357)	(397)
Carrying amount at 31 December	<b>15,956</b>	12,690

The land of the Group was held under the medium lease terms and was situated outside Hong Kong.

At 31 December 2005, certain of the Group's land with an aggregate net book value of approximately HK\$11,220,000 (2004: HK\$7,958,000) was pledged to secure certain banking facilities granted to the Group (note 24).

### 16. DEFERRED TAX ASSETS

Losses available for offset against future taxable profit are as follows:

	2005 HK\$'000	Group 2004 HK\$'000
At beginning of year	2,092	–
Deferred tax credited to the profit and loss account during the year – Note 10	1,740	2,092
Exchange realignment	81	–
At end of year	<b>3,913</b>	2,092

The Group had tax losses arising in the PRC and the ROC of approximately HK\$29,469,000 (2004: HK\$Nil) and HK\$6,812,000 (2004: HK\$8,368,000), respectively, that are available for offset against future taxable profits of the subsidiaries in which the losses arose. Based on the financial projections of these subsidiaries prepared by the directors of the Company, the directors expected that these subsidiaries will have sufficient taxable profits generated in the future to utilise these tax losses and accordingly, deferred tax assets have been recognised.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	777,358	—
Due from subsidiaries	192,343	—
	969,701	—

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration	Nominal value of issued and paid up share/registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Best Alliance Holding Inc. ("Best Alliance")	British Virgin Islands ("BVI")	US\$52,600,000 Ordinary	100%	—	Investment holding
Giant Glory International Limited ("Giant Glory")	Samoa	US\$49,777,419 Ordinary	—	100%	Investment holding and sale of notebook computer casings and related materials
Everyday Computer Components (Suzhou) Co., Ltd.*@	The PRC	US\$35,000,000	—	100%	Manufacture and sale of notebook computer casings
Suzhou Dazhi Communication Accessory Co., Ltd.*@	The PRC	US\$55,000,000	—	100%	Manufacture and sale of notebook computer casings
Jiu De International Limited	Samoa	US\$12,800,000 Ordinary	—	100%	Sale of materials for the manufacture of notebook computer casings
Jiu Ding International Limited	Samoa	US\$12,800,000 Ordinary	—	100%	Dormant

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration	Nominal value of issued and paid up share/registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sincere Joy Corporation	Samoa	US\$1,000,000 Ordinary	–	100%	Sale of materials for the manufacture of notebook computer casings
Tri-Great International Limited	Samoa	US\$1,000,000 Ordinary	–	100%	Sale of notebook computer casings
Applied Business Company Inc.	BVI	US\$1,500,000 Ordinary	–	100%	Sale of materials for the manufacture of notebook computer casings
ICAN Business Limited	BVI	US\$1,500,000 Ordinary	–	100%	Sale of notebook computer casings
Gi Li Co., Ltd. <sup>@</sup>	The ROC	NT\$5,000,000 Ordinary	–	100%	Sale of notebook computer casings and related materials
Hempton International Limited <sup>#</sup>	Samoa	US\$3,500,000 Ordinary	–	100%	Investment holding and sale of paint
Ju Teng Electronics (Shanghai) Co., Ltd. <sup>*#@</sup>	The PRC	US\$12,500,000	–	100%	Manufacture and sale of notebook computer casings
Grand Develop Investments Limited	Hong Kong	HK\$1 Ordinary	–	100%	Provision of general administrative and support services

<sup>#</sup> Acquired by the Group on 30 June 2004

<sup>\*</sup> Registered as wholly-foreign-owned enterprises under PRC law.

<sup>@</sup> Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 18. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Production materials	280,408	210,547
Work in progress	334,208	97,305
Finished goods	129,140	75,863
Moulds and consumable tools	21,207	31,800
	764,963	415,515

### 19. TRADE RECEIVABLES

The general credit terms of the Group range from 90 days to 120 days. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables and factored trade receivables as at the balance sheet date, based on the invoice date, is as follows:

#### Trade receivables

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 3 months	558,198	510,700
4 – 6 months	229,889	223,422
7 – 12 months	5,781	9,738
Over 1 year	3,662	3,704
	797,530	747,564

#### Factored trade receivables

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 3 months	312,337	—
4 – 6 months	188,618	—
7 – 12 months	1,112	—
	502,067	—

At 31 December 2005, certain subsidiaries of the Group had factored trade receivables of HK\$502,067,000 to banks on a without-recourse basis for cash. As the subsidiaries of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, the proceeds from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 19. TRADE RECEIVABLES (continued)

Included in the Group's trade receivables at the balance sheet date were amounts due from the following related companies, which are repayable on credit terms similar to those offered to the major customers of the Group.

	Notes	2005 HK\$'000	2004 HK\$'000
San Li Company Limited ("San Li")	34	525	564
Ta Yu Metallic Company Limited ("Ta Yu Metallic")	34	3	15
Sunrise Plastic Injection Company Limited ("Sunrise")	34	2,017	1,540
San Changs Co., Ltd. ("San Changs")	34	110	—
		<b>2,655</b>	2,119

At 31 December 2005, certain of the Group's trade receivables amounting to HK\$439,110,000 (2004: HK\$604,053,000) in aggregate, were pledged to secure certain banking facilities granted to the Group (note 24).

### 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Prepayments	14,399	37,662	172	—
Deposits and other receivables	50,914	28,082	107	—
Due from related companies	—	319	—	—
	<b>65,313</b>	66,063	<b>279</b>	—

Particulars of the amounts due from related companies are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
San Li	—	156
Sunrise	—	163
	—	319

The maximum amounts outstanding during the year are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
San Li	156	190
Sunrise	163	163

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.



## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	237,109	145,322	129,339	–
Time deposits	20,583	49,981	–	–
	257,692	195,303	129,339	–
Less: Pledged bank balances and time deposits (note)	(30,993)	(49,981)	–	–
Cash and cash equivalents	226,699	145,322	129,339	–

Note: The pledged bank balances and time deposits as at 31 December 2005 included bank balance of HK\$10,410,000 relating to settlement of factored trade receivables by a customer before the year end but not yet offset by the bank against the advance from factoring of the relevant trade receivables.

The Group's pledged bank balances and time deposits of HK\$18,435,000 (2004: HK\$38,298,000) were applied to secure certain banking facilities granted to the Group (note 24).

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government. Companies incorporated in the ROC are subject to certain controls in the remittance of funds out of the ROC up to a certain limit for each calendar year. As at 31 December 2005, the cash and cash equivalents which were subject to exchange and/or remittance restrictions in the PRC or the ROC amounted to approximately HK\$81,880,000 (2004: HK\$44,117,000).

### 22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 3 months	511,356	383,486
4 – 6 months	91,062	40,779
7 – 12 months	19,424	5,321
Over 1 year	8,143	3,968
	629,985	433,554

The trade payables are non-interest-bearing and are normally settled on 90-120 day terms.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 22. TRADE AND BILLS PAYABLES (continued)

Included in the Group's trade and bills payables at the balance sheet date were amounts due to the following related companies and shareholders, which have credit terms similar to those offered by the Group's other major suppliers.

	Notes	2005 HK\$'000	2004 HK\$'000
San Li	34	11,469	10,264
Ta Yu Metallic	34	277	2,583
Sunrise	34	877	2,453
San Changs	34	58	148
Southern Asia Management Limited ("Southern Asia")	34	1,261	1,287
Extrawell Developments Limited ("Extrawell")	34	533	936
Ever Grand Group Limited ("Ever Grand")	34	571	1,388
		<b>15,046</b>	19,059

### 23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Other payables	202,524	140,379	–	–
Accruals	86,613	68,541	2,053	–
Due to related company – note	–	209	–	–
	<b>289,137</b>	209,129	<b>2,053</b>	–

Note:

The amount due to the related company is as follows:

	2005 HK\$'000	2004 HK\$'000
San Li	–	209

The amount due to the related company was unsecured, interest-free and had no fixed terms of repayment.

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 24. INTEREST-BEARING BANK BORROWINGS

			Group	
	Effective interest rate (%)	Maturity	2005 HK\$'000	2004 HK\$'000
<b>Current</b>				
Bank loans - secured	3.25-6.29	2006	269,496	754,826
Bank loans - unsecured	3.55-5.54	2006	73,606	15,564
			<b>343,102</b>	770,390
<b>Non-current</b>				
Bank loans - secured	3.25-6.29	2007-2014	526,260	2,543
Bank loans - unsecured	N/A	N/A	–	172,974
			<b>526,260</b>	175,517
			<b>869,362</b>	945,907
			<b>2005 HK\$'000</b>	<b>2004 HK\$'000</b>
Repayable:				
Within one year			343,102	770,390
In the second year			524,252	156,290
In the third to fifth years, inclusive			974	17,885
Beyond five years			1,034	1,342
			<b>869,362</b>	945,907

Notes:

- (a) Certain of the Group's bank loans were secured by:
- (i) mortgages over the Group's land and buildings and machinery with an aggregate carrying amount of approximately HK\$751,397,000 (2004: HK\$399,065,000);
  - (ii) floating charges over certain of the Group's trade receivables of HK\$439,110,000 (2004: HK\$604,053,000) in aggregate;
  - (iii) the pledge of certain of the Group's bank balances and time deposits amounting to HK\$18,435,000 (2004: HK\$38,298,000); and
  - (iv) corporate guarantee executed by the Company to the extent of HK\$526,196,000 (2004: Nil).

The Group's bank loans as at 31 December 2004 were covered by joint and several guarantees executed by Messrs. Cheng Li-Yu, Cheng Li-Yen and Horng Tsai-Chin, directors of the Company, to the extent of HK\$416,378,000, and by a personal guarantee executed by Mr. Cheng Li-Yu to the extent of HK\$123,437,000.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 24. INTEREST-BEARING BANK BORROWINGS (continued)

- (b) The Group's bank loans with carrying amounts of HK\$829,596,000 (2004: HK\$897,859,000), HK\$37,156,000 (2004: HK\$45,226,000) and HK\$2,610,000 (2004: HK\$2,822,000) are denominated in United States dollars ("USD"), RMB and NTD, respectively.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank loans - secured	79,704	716,052	37,688	719,681
Bank loans - unsecured	–	73,606	–	188,538

### 25. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 HK\$'000	2004 HK\$'000
Forward currency contracts	3,565	4,107

The carrying amount of forward currency contracts is the same as their fair value.

The Group has entered into various forward currency contracts to reduce its exposure to foreign currency exchange rates fluctuations, which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging currency derivatives, amounting to HK\$542,000 was debited to the income statement during the year (2004: credit of HK\$4,107,000). The terms of these contracts are as follows:

At 31 December 2005	Maturity	Exchange rate
Buy RMB318,380,000 (Sell USD)	19 January 2006 to 22 May 2006	7.8935 to 8.0255
Sell RMB322,092,000 (Buy USD)	20 January 2006 to 22 May 2006	8.0068 to 8.0987
At 31 December 2004		
Buy RMB645,831,800 (Sell USD)	23 February 2005 to 24 November 2005	7.9885 to 8.1798
Sell RMB197,294,400 (Buy USD)	21 January 2005 to 22 April 2005	8.2074 to 8.2328

# NOTES TO FINANCIAL STATEMENTS

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## 26. SHARE CAPITAL

### Shares

	2005 HK\$'000	2004 HK\$'000
Authorised:		
2,000,000,000 shares of HK\$0.1 each	200,000	–
52,600,000 ordinary shares of US\$1 each (Note)	–	410,280
Issued and fully paid:		
1,000,000,000 shares of HK\$0.1 each	100,000	–
52,600,000 ordinary shares of US\$1 each (Note)	–	410,280

Note: The balance of the authorised and issued share capital as at 31 December 2004 represents the authorised and issued share capital of Best Alliance, the then holding company of the companies comprising the Group.

The following changes in the Company's authorised and issued share capital took place during the period from 12 July 2004 (date of incorporation) to 31 December 2005.

	Notes	Number of shares of HK\$0.1 each	Nominal value of shares HK\$'000
Authorised:			
Upon incorporation	(a)	52,600,000	5,260
Increase in authorised share capital	(b)	1,947,400,000	194,740
<b>As at 31 December 2005</b>		<b>2,000,000,000</b>	<b>200,000</b>
Issued and fully paid:			
Allotted and issued fully paid on 15 July 2004	(c)	1	–
Allotted and issued fully paid as consideration for acquisition of Best Alliance	(d)	52,599,999	5,260
New issue of shares	(e)	260,000,000	26,000
Capitalisation issue of shares ("Capitalisation Issue")	(f)	687,400,000	68,740
<b>As at 31 December 2005</b>		<b>1,000,000,000</b>	<b>100,000</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 26. SHARE CAPITAL (continued)

Notes:

- (a) On 12 July 2004, the Company was incorporated with an authorised share capital of HK\$5,260,000 divided into 52,600,000 shares of HK\$0.1 each.
- (b) Pursuant to a resolution passed on 6 October 2005, the authorised share capital of the Company was increased from HK\$5,260,000 to HK\$200,000,000 by the creation of 1,947,400,000 shares of HK\$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.
- (c) On 15 July 2004, one share was allotted and issued fully paid at par.
- (d) Under the Group Reorganisation, 52,599,999 shares of HK\$0.1 each were allotted and issued fully paid by the Company as the consideration for the acquisition of the entire issued share capital of Best Alliance to the then shareholders of Best Alliance.
- (e) On 3 November 2005, 260,000,000 shares of HK\$0.1 each were issued at a price of HK\$1.4 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately HK\$321,867,000 net of related expenses from the share offer.
- (f) Pursuant to the resolutions in writing passed by the then shareholders of the Company on 17 June 2005 and 6 October 2005, an amount of HK\$68,740,000 standing to the credit of the share premium account of the Company was applied in paying up in full at par of 687,400,000 shares of HK\$0.1 each for allotment and issue to the shareholders whose names appeared on the register of members of the Company at the close of business on 6 October 2005 in proportion to their then shareholdings in the Company.

### Share options

Details of the Company's Pre-IPO share option scheme, share option scheme and the share options issued are included in note 27 to the financial statements.

## 27. EQUITY COMPENSATION PLANS

### (a) Pre-IPO share option scheme

On 17 June 2005, the Company adopted a Pre-IPO share option scheme. On the same day, Pre-IPO share options were granted to Mr. Tsui Yung Kwok, a director of the Company, for subscribing 2,800,000 shares in the Company at an exercise price per share of HK\$1.26. The exercise period commences from 3 November 2006 and ends on and includes 16 June 2015.

The fair value of the Pre-IPO share options granted during the year was estimated at approximately HK\$1,422,000.

The fair value of the Pre-IPO share options granted during the year was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005.

Dividend yield (%)	0
Expected volatility (%)	38.46
Risk-free interest rate (%)	3.56
Expected life of option (year)	3.38
Underlying price per share (HK\$)	1.405

The expected life of the options is based on the directors' estimation and not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 27. EQUITY COMPENSATION PLANS *(continued)*

#### (b) Share award plan

On 17 June 2005, the Company adopted a share award plan. On the same day, a total of 952,881 shares (before the Capitalisation Issue) in the Company were transferred to the trustee of the share award plan by Jiu Liang International Limited, a company beneficially owned by Southern Asia, Extrawell, Ever Grand and certain employees of the Group, at nil consideration, and a total of 12,452,669 shares were allotted and issued to the trustee of the share award plan pursuant to the Capitalisation Issue. On the same day, the Company awarded a total of 4,289,776 shares (after the Capitalisation Issue) to Mr. Huang Kuo-Kuang, a director of the Company, and certain employees of the Group under the share award plan, which shall vest within 10 business days after the first business day immediately following the expiry of the six-month period after the listing date of the Company and pursuant to the rules of the share award plan and the relevant conditions of the awards. The shares awarded by the Company under the share award plan are considered to be shared-based payments under HKFRS 2.

The fair value of the shares awarded during the year was estimated at approximately HK\$5,325,000.

The fair value of shares awarded during the year was estimated as at the date of grant, using the Guideline Publicly Traded Company (the "GPTC") method, taking into account the terms and conditions upon which the shares were awarded. In applying the GPTC method, different value measures or market multiples of comparable companies are calculated and analysed to induce a series of multiples that are considered representative of the industry average. The value measures or market multiples applied include (1) price-to-revenue; (2) price-to-earning before interest, taxes, depreciation and amortisation; (3) price-to-earning before interest and taxes; (4) price-to-net income; and (5) price-to-common equity multiples. The fair market value derived is then adjusted for a discount for the lack of marketability of the Company's shares before the initial public offering.

#### (c) Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include, among others, the Group's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons that provide research, development or other technological support to the Group, the Group's shareholders and the advisers or consultants of the Group. The Scheme became effective on 3 November 2005 and, unless otherwise cancelled or amended, will remain in force for a period to 5 October 2015.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.



## NOTES TO FINANCIAL STATEMENTS

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### 27. EQUITY COMPENSATION PLANS *(continued)*

#### (c) Share option scheme *(continued)*

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets on the date of the offer of the share options; and (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted under the Scheme since its adoption.

### 28. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding company acquired pursuant to the Group Reorganisation set out in note 2 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

#### (b) Company

		Share premium account HK\$'000	Contributed surplus HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
	Notes					
Arising from the Group						
Reorganisation		–	772,098	–	–	772,098
New issue of shares	26	338,000	–	–	–	338,000
Capitalisation issue of shares	26	(68,740)	–	–	–	(68,740)
Share issue expenses	26	(42,133)	–	–	–	(42,133)
Loss for the year	11	–	–	–	(5,815)	(5,815)
Share-based compensation arrangements	27	–	–	3,856	–	3,856
<b>At 31 December 2005</b>		<b>227,127</b>	<b>772,098</b>	<b>3,856</b>	<b>(5,815)</b>	<b>997,266</b>

The Company's contributed surplus represents the excess of the fair value of the shares of the former Group holding company acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus in certain circumstances.



## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 29. BUSINESS COMBINATION

In the prior year, on 30 June 2004, the Group acquired a 100% interest in Hempton. Hempton is the holding company of Ju Teng Electronics, which is principally engaged in dust-free spray painting of notebook computer casings in the PRC. The purchases consideration for the acquisition was in the form of shares, with 2,822,581 shares issued by Best Alliance on 30 June 2004. The fair value of the shares issued by Best Alliance is estimated by the management of the Group to be approximately HK\$37,262,000 with reference to the fair value of the identifiable assets and liabilities acquired.

The fair values of the identifiable assets and liabilities of Hempton and Ju Teng Electronics as at the date of acquisition and the corresponding carrying amounts before the acquisition were as follows:

	Fair value recognised on acquisition HK\$'000	Carrying amount HK\$'000
Property, plant and equipment (Note 14)	57,855	57,855
Lease premium for land (Note 15)	2,234	2,234
Inventories	4,192	4,192
Trade receivables	19,824	19,824
Prepayments, deposits and other receivables	3,333	3,333
Cash and bank balances	4,297	4,297
Trade and bills payables	(7,797)	(7,797)
Other payables and accruals	(39,138)	(39,138)
Interest-bearing bank borrowings	(7,538)	(7,538)
	<b>37,262</b>	37,262
Satisfied by issue of shares by Best Alliance	<b>37,262</b>	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK\$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4,297

From the date of acquisition, Hempton and Ju Teng Electronics have contributed revenue of approximately HK\$27,738,000 and net loss of approximately HK\$13,585,000 to the Group up to 31 December 2004. If the acquisition had taken place at 1 January 2004, the revenue and profit of the Group for the year ended 31 December 2004 would have been approximately HK\$1,583,691,000 and HK\$245,892,000, respectively.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 30. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

#### Major non-cash transactions

During the prior year, 2,822,581 ordinary shares of Best Alliance of US\$1 each were issued as consideration for the acquisition of 100% equity interests in Hempton and its subsidiary, Ju Teng Electronics. The fair value of 2,822,581 ordinary shares was determined by reference to the fair value of Hempton and its subsidiary, Ju Teng Electronics, amounting to HK\$37,262,000 as at the date of acquisition. Advances from shareholders of HK\$28,005,000 were also capitalised in the issued capital and share premium account as additional capital contributed by shareholders.

### 31. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

At the balance sheet date, the Company had provided corporate guarantee of approximately HK\$1,033,958,000 (2004: Nil) to banks in connection with banking facilities granted to its subsidiaries, which were utilised to the extent of approximately HK\$634,987,000 (2004: Nil).

### 32. OPERATING LEASE COMMITMENTS

The Group leases certain of its offices properties and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	6,743	5,697
In the second to fifth years, inclusive	12,340	14,602
	19,083	20,299

### 33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments as at the balance sheet date:

	2005 HK\$'000	2004 HK\$'000
Contracted, but not provided for:		
Land and buildings	3,806	79,002
Machinery	5,766	59,311
Total capital commitments	9,572	138,313

At the balance sheet date, the Company did not have any significant commitments.

## NOTES TO FINANCIAL STATEMENTS

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### 34. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

	Notes	2005 HK\$'000	2004 HK\$'000
Purchase of production materials from:			
San Li (1)	(i)	<b>22,418</b>	15,835
Ta Yu Metallic (2)	(i)	<b>1,800</b>	7,388
Sunrise (3)	(i)	<b>1,740</b>	6,865
San Changs (4)	(i)	<b>165</b>	140
Purchase of moulds from Ta Yu Metallic	(i)	–	445
Sale of finished goods to:			
San Li	(ii)	<b>854</b>	1,114
Ta Yu Metallic	(ii)	–	13
Sunrise	(ii)	<b>4,423</b>	1,842
San Changs	(ii)	<b>534</b>	–
Sale of production materials to Hempton (9)	(ii)	–	2,153
Technical assistance fees paid to:			
Southern Asia (1)	(iii)	<b>7,122</b>	5,469
Extrawell (5)	(iii)	<b>2,928</b>	2,839
Ever Grand (6)	(iii)	<b>4,895</b>	4,297
Interests paid to:			
Southern Asia	(iv)	–	109
Linwood Investments Limited ("Linwood") (7)	(iv)	–	150
San Li	(iv)	–	236
Rental expenses paid to:			
San Li Enterprises Company Limited (1)	(v)	<b>39</b>	53
Ms. Lin Mei-Li (8)	(v)	<b>67</b>	81
Mr. Cheng Li-Yu (10)	(v)	<b>32</b>	9

# NOTES TO FINANCIAL STATEMENTS

31 December 2005

## 34. RELATED PARTY TRANSACTIONS (continued)

### (a) (continued)

Notes:

- (1) San Li, San Li Enterprises Company Limited and Southern Asia are controlled by Mr. Cheng Li-Yu, a director of the Company.
- (2) Ta Yu Metallic is controlled by Mr. Horng Tsai-Chin, a director of the Company.
- (3) Sunrise is controlled by Mr. Cheng Li-Yen, a director of the Company.
- (4) San Changs is controlled by Messrs. Cheng Li-Yen, Huang Kuo-Kuang, directors of the Company, and by Ms. Lin Mei-Li, the spouse of Mr. Cheng Li-Yu.
- (5) Mr. Horng Tsai-Chin, a director of the Company, is a shareholder of Extrawell.
- (6) Ever Grand is controlled by Messrs. Cheng Li-Yu and Cheng Li-Yen, directors of the Company.
- (7) Linwood is controlled by Mr. Cheng Li-Yu, a director of the Company.
- (8) Ms. Lin Mei-Li is the spouse of Mr. Cheng Li-Yu, a director of the Company.
- (9) Hempton was previously held by Linwood and an independent third party. Upon the completion of acquisition on 30 June 2004, Hempton became an indirect wholly-owned subsidiary of the Company.
- (10) Mr. Cheng Li-Yu is a director of the Company.
- (i) The purchase prices for production materials and moulds were determined at rates mutually agreed between the relevant parties.
- (ii) The selling prices of production materials and finished goods were determined at rates mutually agreed between the relevant parties.
- (iii) The technical assistance fees were determined at rates mutually agreed between the relevant parties.
- (iv) The loans or advances from Southern Asia, Linwood and San Li bore interest at the rate of 7% per annum.
- (v) The rentals were determined at rates mutually agreed between the relevant parties.

The above transactions entered into by the Group during the year ended 31 December 2005 (other than the technical assistance fees paid to Southern Asia, Extrawell and Ever Grand) also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The technical assistance fees paid were in relation to the provision of technical assistance services prior to the listing of the Company's shares on the Stock Exchange.

### (b) Other transactions with related parties

- (i) Certain of the Company's directors has guaranteed certain bank loans made to the Group, as further detailed in note 24 to the financial statements.
- (ii) During the prior year, Best Alliance acquired 100% equity interest in Hempton for a consideration of the issue of 2,116,936 and 705,645 ordinary shares of Best Alliance to Linwood and Elite Services Business Limited, an independent third party, respectively. Hempton is the holding company of Ju Teng Electronics, which is principally engaged in dust-free spray painting of notebook computer casings in the PRC.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 34. RELATED PARTY TRANSACTIONS (continued)

#### (c) Outstanding balances with related parties:

Details of the Group's balances with its related companies as at the balance sheet date are included in notes 19, 20, 22 and 23 to the financial statements.

#### (d) Compensation of key management personnel of the Group:

	2005 HK\$'000	2004 HK\$'000
Short term employee benefits	4,938	4,121
Employee share-based compensation expenses	980	—
Total compensation paid to key management personnel	5,918	4,121

Further details of directors' emoluments are included in note 8 to the financial statements.

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the balance sheet date, the Group's principal financial instruments comprise cash and cash equivalents, trade receivables, derivative financial instruments, trade and bills payables, other receivables and payables and bank borrowings.

The Group does not have written risk management policies and guidelines. However, the management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks, including principally credit risk and changes in currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management.

#### (i) Interest rate risk

The interest rates and the terms of repayment of the Group's bank and other loans are disclosed in note 24 above. The Group has no significant exposure to interest rate risk.

#### (ii) Foreign currency risk

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to certain trade receivables, trade and bills payables and certain cash and cash equivalents in currencies other than the functional currencies of the Group's operating subsidiaries. The Group uses derivative financial instruments to reduce its foreign currency risk, but the transactions do not qualify for hedge accounting.

#### (iii) Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group has a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for 72% of the Group's trade receivables at the balance sheet date.

## NOTES TO FINANCIAL STATEMENTS

31 December 2005

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### (iii) Credit risk *(continued)*

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade receivables.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the other party, with a maximum exposure being equal to the carrying amount of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

#### (iv) Fair values

Other than the derivative financial instruments which have been measured at fair value, the financial assets and liabilities which are not carried at fair value in the consolidated balance sheet are presented below:

##### (a) Bank balances, trade receivables, trade and bills payables, other receivables and payables

The carrying amounts of these balances approximate to their fair values because of the immediate or short term maturity of these financial instruments.

##### (b) Bank borrowings

The carrying amounts of bank loans approximate to their fair values, based on the borrowing rates currently available for bank loans with similar terms and average maturity.

#### (v) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

### 36. POST BALANCE SHEET EVENTS

- (a) On 23 January 2006, the Group entered into an agreement for the acquisition of 70% interest in Mindforce Holdings Limited at a consideration of US\$4.9 million (approximately HK\$38.2 million). Mindforce Holdings Limited, a company incorporated in the BVI, has a wholly-owned PRC subsidiary, WIS Precision (Kunshan) Company Limited ("緯立資訊配件(昆山)有限公司"), which is principally engaged in the manufacture and sale of notebook computer casings and related products.
- (b) On 13 February 2006, the Group entered into an agreement for the acquisition of 36.5% interest in Smart Success Enterprises Limited at a consideration of US\$2.2 million (approximately HK\$17.1 million). Smart Success Enterprises Limited, a company incorporated in Samoa, has a wholly-owned PRC subsidiary, Chengyang Precision Mold (Kunshan) Company Limited ("晟揚精密模具(昆山)有限公司"), which is principally engaged in the manufacture and sale of moulds.
- (c) On 20 March 2006, the Group entered into an agreement for the acquisition of approximately 5.26% interest in 柏騰科技股份有限公司 at a consideration of NT\$67 million (approximately HK\$18 million). 柏騰科技股份有限公司 is a company incorporated in the ROC and is principally engaged in the provision of coating services.

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.